

TIDEWATER UTILITIES, INC.

T-4

TESTIMONY OF A. BRUCE O'CONNOR

Q. STATE YOUR NAME AND BUSINESS ADDRESS.

A. A. Bruce O'Connor. My business address is: 1500 Ronson Road, Iselin, New Jersey 08830.

Q. PLEASE STATE YOUR PROFESSIONAL QUALIFICATIONS AND EXPERIENCE.

A. I am a Certified Public Accountant and Vice President and Chief Financial Officer of Middlesex Water Company (Middlesex). Tidewater Utilities, Inc. is a wholly-owned subsidiary of Middlesex. I have been employed with Middlesex since 1990.

Q. DO YOU HOLD AN OFFICIAL POSITION WITH THE APPLICANT?

A. I have been the Treasurer of Tidewater Utilities, Inc. (Tidewater or Company) since 1996. I was Controller of Tidewater from 1993 until promoted to Treasurer in 1996. I have overall responsibility for accounting, taxes, payroll, customer service, billing and disbursement procedures, cash management and financial statement preparation. My responsibilities also include the Company's financing program.

Q. HAS TIDEWATER COMPLIED WITH ITS COMMITMENT IN THE SETTLEMENT AGREEMENT APPROVED BY ORDER NO. 8164 FOR A MONTHLY METER READING AND BILLING STUDY SUBMISSION AND THE FILING OF A LEAD-LAG STUDY?

A. On or about March 12, 2013, Tidewater submitted a monthly meter reading and billing feasibility study to Public Service Commission and the Department of the Public Advocate. Tidewater has included the results of lead-lag study in the preparation of the financial information used to determine its projected rate increase request in this rate matter.

1 Q. ARE THE BOOKS AND RECORDS OF TIDEWATER PREPARED AND
2 MAINTAINED IN ACCORDANCE WITH THE UNIFORM SYSTEMS OF
3 ACCOUNTS PRESCRIBED BY THE DELAWARE PUBLIC SERVICE
4 COMMISSION FOR A MAJOR WATER UTILITY?

5 A. Yes.

6 Q. HAVE YOU PREPARED FINANCIAL SCHEDULES WHICH SUPPORT THE
7 COMPANY'S APPLICATION FOR AN INCREASE IN ITS BASE RATES?

8 A. Yes, the summary and supporting financial schedules that comply with the Minimum Filing
9 Requirements (MFR) of the Delaware Public Service Commission (PSC) were prepared under
10 my direct supervision.

11 Q. IS THE INFORMATION CONTAINED IN THESE SCHEDULES TRUE
12 AND CORRECT TO THE BEST OF YOUR KNOWLEDGE AND BELIEF?

13 A. Yes.

14 Q. WHAT ARE THE TEST YEAR AND THE TEST PERIOD FOR THIS RATE CASE?

15 A. The Test Year is the twelve months ended September 30, 2013. The Test Period is the
16 twelve months ended June 30, 2014 and reflects all known and measurable changes,
17 annualized, that are expected to occur on or before June 30, 2014. The Test Period rate
18 base items start with actual September 30, 2013 Balance Sheet data, with adjustments to
19 June 30, 2014. The Company has selected this Test Period as it will partially reflect the
20 actual results for the first year the rates are expected to be in effect.

21 Q. PLEASE EXPLAIN SCHEDULE 1, OVERALL FINANCIAL SUMMARY.

22 A. Schedule 1 summarizes the calculation of the requested rate increase for the Test Year
23 and the Test Period, indicating the Rate Base, Net Operating Income, Proposed Fair Rate
24 of Return and Gross Revenue Conversion Factor. The schedules that support these items

1 are referenced on Schedule 1. Testimony and information with respect to the Rate Base
2 MFR Schedule 2 and all the sub-schedules associated with Rate Base, except Schedule
3 2A, will be sponsored by Michele L. Tilley. Mr. Jeremy M. Kalmbacher has sponsored
4 testimony for Schedule 2A.

5 Q. PLEASE EXPLAIN SCHEDULE 3, INCOME STATEMENT FOR 2012 ACTUAL,
6 TEST YEAR AND TEST PERIOD.

7 A. This schedule reflects the Company's income statement for the actual results in calendar
8 year 2012, the Test Year and the Test Period at Present and Proposed rates. Column 1 on
9 Schedule 3 indicates the actual results for the year 2012. Column 2 represents the Test
10 Year, which is the twelve months ended September 30, 2013, with all changes in
11 revenues and expenses, annualized, as though the change had been in effect for the entire
12 Test Year. Column 3 represents the Test Period, the twelve months ended June 30, 2014
13 with all changes in revenues and expenses, annualized, as though the change had been in
14 effect for the entire period. Column 4 calculates the rate increase that is necessary for the
15 Company to earn a fair rate of return on its investments in rate base and recovery of
16 prudently-incurred operating expenses. Column 5 represents the Test Period after
17 inclusion of the revenue and expense effect of the proposed rate increase. The supporting
18 schedules are referenced on the schedule.

19 Q. WOULD YOU PLEASE DESCRIBE SCHEDULE 3A – OPERATING REVENUES?

20 A. Schedule 3A, page 1 of 3 summarizes the detailed calculations found on Schedule 3A
21 pages 2 and 3 for each customer class or, type of revenue. The detail was used to develop
22 the proposed rates included in the pro forma tariff sheets labeled as Schedule 8.

23 Schedule 3A, Page 2 of 3, Lines 1 through 10 – Facility Charge – This represents the
24 proposed fixed component of customer bills based on the actual number of customers at

1 September 30, 2013, by meter size, as shown therein, under the column entitled Present
2 Rates, Test Year. The projected number of customers at June 30, 2014, by meter size, is
3 listed under the column entitled Number of Customers, Test Period. In general,
4 customers are billed quarterly. In order to calculate projected Facility Charge revenues,
5 the number of customers was multiplied by 4 to equal the number of bills rendered
6 annually. The resulting number of bills was multiplied by the current tariff rate, resulting
7 in Test Year and Test Period Facility Charge Revenues. This represents the first of two
8 components of the General Metered Service class revenues.

9 Schedule 3A, Page 2 of 3, Lines 11 through 20 – Consumption Charges – In order to
10 develop Test Year revenues, I utilized actual consumption for the twelve months ended
11 September 30, 2013 to represent the Test Year. Test Period consumption was projected
12 by utilizing a combination of actual and projected consumption for the period ended June
13 30, 2014. The foundation for the projected consumption was an exercise performed by
14 Company Witness Bruce E. Patrick in developing the Test Period water production data.
15 Mr. Patrick reviewed monthly production records for the five-year period 2008 through
16 2012 and also reviewed production data for 2013 if available. He used 5 or 6 year
17 averages in most cases where the consumption was consistent from year to year; he then
18 rounded the projection. For periods where the last 2-3 years of consumption significantly
19 varied from the average, he used a 2 or 3 year average using the most recent 2-3 years of
20 production data. Once, Mr. Patrick determined the nature of the variance, the production
21 data in question was normalized as necessary to reflect expected production during the
22 Test Period. The overriding reason for normalization was due to weather variations and a
23 reduction in summer months of recent years which appears to be from customers
24 installing irrigation wells to avoid purchasing water from Tidewater for outdoor irrigation

1 purposes. Mr. Patrick has sponsored testimony that provides expanded information on
2 irrigation customers. The next step in determining Test Period consumption was to
3 apply the line loss factor to Test Period production. The Test Period line loss factor was
4 developed using the same methodology that was used to develop Test Period production.
5 The annual consumption for the Test Year and Test Period was multiplied by the current
6 tariff rates, yielding Test Year and Test Period Consumption Revenues. This represents
7 the remaining components of the General Metered Service class revenues.

8 Schedule 3A, Page 2 of 3, Lines 21 through 27 – Contract Sales Consumption Charges –

9 Test Year and Test Period revenues were developed in similar fashion as General
10 Metered Service consumption revenues, utilizing a combination of actual and projected
11 consumption for period ended June 30, 2014.

12 Schedule 3A, Page 3 of 3, Line 1 – Public Fire Protection - The Company charges for

13 Public Fire Protection service to individual customers where fire service is required. The
14 Public Fire Service Revenues were developed from the same data used for the General
15 Metered Service Facility Charges revenue calculation. The data indicates which
16 developments have fire service and therefore, which current and new customers will have
17 fire service. The actual number of Public Fire Service customers for the Test Year and the
18 projected number of Public Fire Service customers for the Test Period were multiplied by
19 4, since these customers are billed quarterly, to equal the number of bills rendered
20 annually. The resulting number of bills was multiplied by the quarterly rate, yielding
21 Public Fire Protection Revenues for the Test Period.

22 Schedule 3A, Page 3 of 3, Lines 2 through 7 – Private Fire Protection – Facility Charge –

23 I calculated the actual number of customers at September 30, 2013, by meter size for
24 Private Fire Protection. Growth was projected, based upon anticipated new customers, to

1 arrive at Test Period customers. The actual number of fire service customers for the Test
2 Year and projected number of customers for the Test Period were multiplied by 4, since
3 these customers are billed quarterly, to equal the number of bills rendered annually. The
4 resulting number of bills was multiplied by the applicable quarterly tariff rate, yielding
5 Private Fire Protection revenues for the Test Period.

6 Schedule 3A, Page 3 of 3, Lines 8 through 16 – Connection Fees - A fee is charged for
7 connecting new customers to the system. The connection fee revenue was calculated by
8 taking the number of projected new customers, by meter size, projected for General
9 Metered Service and Private Fire Protection, times the applicable Connection Fee tariff
10 rate. The decline in connection fees from the Test Year to the Test Period reflects a
11 continuing trend of a decreasing rate of new customers added to the Tidewater system.

12 Q. ARE THERE ANY OTHER REVENUES THAT ARE INCLUDED IN TIDEWATER'S
13 OPERATIONS?

14 A. At the bottom of Schedule 3A, page 1 of 3 there is a table of miscellaneous service
15 revenues for charges such as Turn-on Fees, Late Payment Penalties, and Returned Check
16 Fees.

17 Q. PLEASE DESCRIBE SCHEDULE 3B.

18 A. Schedule 3B lists the major categories of Operation & Maintenance Expenses and
19 references the relevant support schedules where the underlying detail is presented. The
20 schedule shows the expenses for 2012, the Test Year and the Test Period. Included as an
21 attachment to my testimony identified as Appendix A is a listing of the major expense
22 categories for transactions with affiliates.

23 Schedules 3B-2, 3B-3, 3B-4, 3B-5, and a portion of Schedule 3B-1, have been sponsored
24 by, and will be discussed in the testimony of, Mr. Bruce Patrick.

1 Schedule 3B-1, Labor - Labor expense was developed starting with salaries of 92 active
2 positions at September 30, 2013. A projected average wage increase of 2.5%, anticipated
3 to be granted effective April 1, 2014, as well as scheduled progression increases for
4 certain positions, were annualized to derive Test Period labor. Overtime was calculated
5 utilizing a combination of actual Test Year information and budgeting forecasts to arrive
6 at the Test Period overtime labor. Average labor costs capitalized and/or billed to
7 affiliated companies for the twelve months ended June 30, 2014 was projected at 32.95%,
8 and were subtracted from Test Period labor.

9 Schedule 3B-6 - Customer Record and Collection Expenses - This schedule details the
10 elements of customer service expenses such as allocated labor, postage, billing and
11 lockbox services. Middlesex provides customer call center and billing services on behalf
12 of Tidewater. To the extent possible, specifically identified costs are charged to
13 Tidewater. However, the majority of call center and billing services costs are
14 homogeneous and cannot be specifically identified and attributable to one specific entity.
15 Because of the homogenous nature of these costs, costs such as for the Middlesex central
16 call center labor (Line 1) are allocated by Middlesex to all of its affiliates based on the
17 number of customers served by the individual affiliate. Line 1 has been adjusted to
18 reflect the impact of both anticipated wage increases and new customer growth in the
19 Tidewater service territory. Postage and lockbox costs (lines 2 and 4, respectively) are
20 based on the number of customer mailings and payments as well as a 2013 and 2014
21 increase in first class mailings through the U.S. Postal Service. Line 3 costs are for the
22 fees charged by an outside service to print our customer invoices, stuff the envelopes and
23 mail the invoices to our customers.

1 Schedule 3B-7 - Uncollectibles - This schedule indicates actual write-offs of bad debts,
2 adjusted on a percentage basis for the rate increase, since a rate increase would result in
3 higher receivables and therefore, higher uncollectibles. In addition, Tidewater has seen its
4 level of aged receivables grow, and the amount of uncollectible accounts as well, by a
5 corresponding amount.

6 Schedule 3B-8 - Outside Services - This schedule lists the various outside services costs.

7 On Line 1, Temporary Help costs are expected to decline in the Test Period as a result of
8 process improvement for periodic meter change-out program and collections activities.

9 Line 2 represents overhead allocation charges to Tidewater from Middlesex based on a
10 three-factor cost allocation methodology. A comprehensive study prepared by the
11 international accounting firm Deloitte and Touche LLP was the foundation for the
12 methodology, which was adopted in connection with a recommendation from a New
13 Jersey Board of Public Utilities initiated management audit of Middlesex Water
14 Company. As part of the last review by Commission Staff of services provided to
15 Tidewater by Middlesex (PSC Docket No. 10-247), this methodology was reviewed and
16 discussed and no objections were reported.

17 The three-factor overhead cost allocation is intended to reflect a pro-rata share of indirect
18 expenses associated with employees that provide specific services to affiliate companies
19 and other applicable expenses that are not specifically identifiable by entity. Three
20 factors (revenues, net assets and payroll) are used in formulating the standard monthly
21 overhead allocation. Indirect expenses incorporated as part of the overhead allocation
22 include but are not limited to audit fees, employee benefits, property taxes, utilities,
23 insurance, lease payments, depreciation, maintenance, safety, training, support personnel

1 and other costs associated with building space and equipment not otherwise charged
2 directly to affiliate companies.

3 Line 3 indicates projected Test Period legal fees that are ongoing in nature, although for
4 different matters.

5 Line 4 represents charges from Middlesex Water Company to Tidewater, based upon
6 actual hours of service provided by Middlesex employees to Tidewater. These services
7 are provided pursuant to a Service Agreement updated November 15, 2013 for
8 supervisory, technical and clerical personnel services including, but not limited to, the
9 following: accounting, administration, billing, communications, corporate, customer
10 service, engineering, financial, human resources, information services, meter reading,
11 operations, rates and revenue, risk management and water quality. The Test Period
12 expense was determined utilizing a combination of actual and projected data.

13 Line 5 reflects the cost of a separate independent audit report for Tidewater as required
14 by the PSC rules and regulations.

15 Line 6 represents overhead costs associated with Tidewater employees that provide
16 professional services to affiliated companies. In addition, the actual labor costs for those
17 services are excluded from employee salaries and wages shown on Schedule 3B-1.

18 Line 7 represents an allocation of the annual and ongoing licensing fees and maintenance
19 agreement costs for the Enterprise Resource Planning (ERP) system and the allocation
20 employee costs for services provided by the Middlesex Information Technology
21 Department. The allocation of these fees and costs is based on a separate three-factor
22 model calculation, which includes the three factors of Middlesex and Tidewater only.

23 Q. WHAT IS THE NEED FOR A SEPARATE THREE-FACTOR OVERHEAD
24 CALCULATION FOR ERP ASSOCIATED COSTS?

1 A. ERP is a business process technology platform designed to efficiently collect mass
2 quantities of data for use by companies, such as water utilities, to properly plan and
3 operate their businesses by making timely information available for such areas as
4 Accounting, Billing, Budgeting, Capital Projects, Customer Service, Dispatching,
5 Distribution, Engineering, Financing, Human Resources, Insurance, Metering, Plant
6 Replacement, Rate Matters, Regulatory Filings and Water Treatment. Data collection
7 needs for larger public utilities are a more complex and demanding exercise than for
8 small utilities. The scope and size of the Middlesex (60,000 customers and annual water
9 production of 13.5 billion gallons) and Tidewater (34,000 customers and annual water
10 consumption of 1.7 billion gallons) systems and operations necessitate the need for an
11 ERP system. Conversely, systems such as our affiliates Twin Lakes Utilities, Inc. (116
12 customers and annual water consumption of 4.1 million gallons), Southern Shores Water
13 Company, LLC (2,450 customers [58 billing customers] and water consumption of 64.7
14 million gallons) and Pinelands Water Company (2,459 customers and annual
15 consumption of 144.5 million gallons) have data and operational requirements that do
16 not require the sophisticated capabilities of an ERP system.

17 Q. HOW DO INDEPENDENT SMALL PUBLIC UTILITIES COST EFFECTIVELY
18 MANAGE THEIR DATA NEEDS?

19 A. It depends on the size of the utility, the technology skill set that the owner brings to the
20 business or can attract to perform the work. Many use manual (excel based spreadsheets)
21 or off-the-shelf basic general ledger, billing and fixed asset software packages to run their
22 businesses. Some engage an outside service vendor to provide billing services which
23 usually includes a customer information system (customer history and accounts

1 receivable) (collectively "CIS"). Prior to migrating to an ERP system, Middlesex,
2 Tidewater and its affiliates utilized such a service.

3 Q. WHY DIDN'T THE MIDDLESEX AFFILIATES REMAIN WITH THE OUSTIDE
4 SERVICE VENDOR?

5 A. Notification in 2006 by the vendor that its parent company was seeking to divest its
6 ownership of its CIS business combined with a lack of commitment from its existing
7 management to upgrade, enhance or replace the aging technology platform prompted
8 Middlesex to evaluate alternative CIS options. At the time, Middlesex was the outside
9 vendor's second largest customer. Once a decision was made by Middlesex to move to
10 an ERP system, it was impractical from a management standpoint to consider leaving all
11 8 affiliates on a separate CIS with an uncertain future while managing Middlesex and
12 Tidewater on an owned and operated system.

13 Q. SHOULD THOSE AFFILIATES USE THE ERP SYSTEM AND NOT BE
14 RESPONSIBLE FOR ITS COST?

15 A. There should be no cross-subsidization for the customers of those affiliates. At the same
16 time those affiliates shouldn't subsidize Middlesex and Tidewater customers either.
17 Incremental costs due to ERP use by affiliates should be borne by those affiliates. In
18 addition, avoided costs at the affiliates by using Middlesex/Tidewater ERP system
19 instead of an alternate solution should be used to offset the cost of ERP to Middlesex and
20 Tidewater. Annual license fees for the ERP billing module are based on a \$1.20 rate per
21 customer account. The total number of affiliate accounts at the end of the Test Period is
22 projected to be 28,737 which when multiplied by the rate per account amounts to
23 \$34,484. This would be a deduction from Line 7, Schedule 3B-8. I have obtained unit

1 pricing charged by an outside service vendor that provides billing services to small and
2 mid-size water utilities. The per bill charge is \$0.80 for:

3 1. Bill Calculation

4 2. Bill Print

5 3. Bill Mailing

6 4. Customer History Maintenance

7 Our affiliates use an outside vendor for items numbered 2 and 3 above at a rate of \$0.13
8 per item. Our affiliates utilize the ERP system for items numbered 1 and 4 above. The
9 net avoided cost to the affiliates is \$0.67 per item, which when multiplied by the Test
10 Period projected 142,582 bills issued would be a deduction from Line 7, Schedule 3B-8
11 after the avoided cost is allocated between Middlesex and Tidewater. With regard to
12 accounting transactions, off the shelf solutions for general ledger and fixed asset modules
13 are viable thrifty tools for small utilities. Quick Books is available on-line for \$189.95,
14 while Fixed Asset Pro is available for \$549.00.

15 Q. CAN YOU CONTINUE WITH YOUR EXPLANATION OF SCHEDULE 3B-8?

16 A. Line 8 is for costs for outside consultants and out-of-pocket expenses for travel and
17 accommodations for Middlesex employees traveling to Delaware to provide services for
18 Tidewater.

19 Schedule 3B-9 – Property and Liability Insurance – This schedule shows the detail of
20 each type of insurance, a general description of the coverage and the current premium.
21 All insurance coverage is procured by Middlesex Water and allocated to the affiliated
22 companies based on the three-factor formula. All but one of the insurance policies renew
23 annually on June 1st. The pollution insurance policy renews on a triennial cycle with the
24 next renewal date set for June 2015.

1 Schedule 3B-10 – Employee Pensions and Benefits – This schedule details the cost of
2 health, welfare and retirement benefits provided to Tidewater employees and retirees.
3 The amounts in the Test Period column, Lines 1 and 2, represent the annualized cost,
4 assuming a certain percentage increase, upon renewal of the insurance policies. As the
5 renewal date approaches, the actual premium rates will be available and incorporated into
6 an update to the Test Period. The 401(K) Plan expenses for matching contributions are
7 expected to change accordingly as wage levels change. Therefore, the 401(K) Plan
8 expense has been annualized, assuming a certain percentage increase, as a function of the
9 wage increase percentage projected to be granted in the Test Period. The Test Period
10 amounts for Postretirement Benefits (Line 5) and Pensions (Line 6) are based on
11 projections for each respective retirement plan valuation as of January 1, 2014, for the
12 twelve months ended June 30, 2014. Statutorily, all Employee Retirement Income
13 Security Act (ERISA) qualifying plans are required to prepare their valuation using
14 assumptions in place on the first day of the fiscal year of the Plan Sponsor to determine
15 the plan cost for the coming year. For 2014, Tidewater has increased its expected
16 Postretirement Benefits and Pensions costs by 7.0%. The 2014 valuation is expected to
17 be completed by April 1, 2014 and will be provided to the parties in this matter when
18 available.

19 Q. WHAT CAUSED THE LARGE DROP IN LINE 5 – POSTRETIREMENT BENEFITS
20 FROM 2012 TO THE TEST YEAR AND TEST PERIOD?

21 A. Effective January 1, 2013, the Postretirement Health Benefit Plan (FAS 106) was
22 amended to lengthen the employee service period to qualify for retirement health care
23 benefits and to limit the Company's overall percentage contribution for these benefits.
24 The Net FAS 106 cost in this proceeding shown is \$446,000 and is considerably lower

1 than the Net FAS 106 cost of \$1,379,000 in PSC Docket 11-397 or the \$1,391,000 for
2 2012.

3 Q. CAN YOU CONTINUE ON AND EXPLAIN SCHEDULE 3B-11?

4 A. Schedule 3 B-11 - Regulatory Commission Expense - This schedule details the estimated
5 cost of this rate proceeding, based on the assumption that this proceeding will be fully
6 litigated. If it appears that this rate case will be stipulated, these expenses will be updated
7 to reflect the projected cost of a stipulated case. The schedule was also prepared to be in
8 compliance with the MFR, indicating the cost of prior rate cases. Also included in this
9 Schedule are 4-year amortization period costs associated with the management audit
10 ordered by the PSC in Docket No. 10-247 and 5-year amortization period costs associated
11 with the reduction in employees in 2012 and the related severance Tidewater incurred in
12 2012 during its last base rate proceeding (PSC Docket No. 11-397).

13 Schedule 3B-12 – Other Operation and Maintenance Expenses – This schedule lists, by
14 PSC account number, all Operation and Maintenance Expenses not specifically addressed
15 in Schedule 3B-2 to 3B-11, Schedule 3C or Schedule 3H.

16 Schedule 3B-13 - Interest on Customer Deposits - Interest on Customer Deposits is
17 included as an Operation and Maintenance Expense.

18 Q. PLEASE DESCRIBE THE OTHER SCHEDULES THAT YOU ARE SPONSORING?

19 A. Schedule 3D, 3E, 3F and 3G - Minimum Filing Requirements - This information has
20 been supplied on these schedules in compliance with the MFR. The statement required
21 by Item 11 of the MFR is the Company has not spent any amounts in the Test Year or the
22 Test Period on influencing legislation. The lobbying portion of the National Association
23 of Water Company dues is recorded in Other Income and Deductions, “below the line”.

1 Schedule 3J - Federal and State Income Taxes - This schedule calculates Federal and
2 State Income Taxes for the Test Year and the Test Period at present and proposed rates.
3 In arriving at the Company's Federal and State tax expense, taxable income has been
4 calculated by deducting from Operating Revenues the following: Operation and
5 Maintenance Expenses, Depreciation, Taxes Other Than Income Taxes, and State Income
6 Taxes for calculating Federal Income Taxes, and Interest Charges calculated by utilizing
7 interest synchronization. The calculation of interest synchronization is shown on the
8 bottom of Schedule 3J whereby, the interest for tax purposes is calculated by using the
9 Rate Base from Schedule 2, multiplied by the weighted cost of debt from the Rate of
10 Return Calculation found on Schedule 4. The Test Year rate of return on Schedule 4
11 represents the rate of return established to set the revenue requirement in the settled
12 outcome of the most recent base rate matter approved by the PSC. Since the effective
13 date of the last base rate increase, this is the percentage that was used to calculate the
14 Allowance for Funds Used During Construction (AFUDC) on all capital projects
15 expected to cost \$200,000 and have a construction period in excess of two months. This
16 AFUDC rate is also applied to qualifying capital projects during the Test Period.

17 At the bottom of this Schedule 3J is a breakdown of Federal and State Income Taxes
18 between current and deferred, which is being provided in accordance with the MFR. The
19 deferred income taxes calculated and recorded by Tidewater result from the accelerated
20 treatment of the recovery of capital investment in long-lived assets as allowed under the
21 Internal Revenue Service Code and Regulations (collectively, the "Code") compared to
22 financial and regulatory requirements. In order for a regulated public utility to properly
23 elect an accelerated method of tax depreciation for its utility plant, which currently is the
24 Modified Accelerated Cost Recovery System (MACRS), it must calculate and reflect

1 deferred income taxes in its rate base in accordance with the Code. Deferred income
2 taxes on sales or retirements of utility plant, including cost of removal and sales proceeds
3 must also be calculated and recorded in accordance with the Code in order to continue to
4 utilize MACRS.

5 Tidewater is included in the consolidated federal income tax return filed by Middlesex.

6 Each member of the consolidated group is responsible for its income tax liability and the
7 respective share is recorded by journal entry on a monthly basis.

8 Schedule 3M - Taxes Other Than Income Taxes - This schedule details payroll taxes, real
9 estate taxes, other taxes and the PSC Assessment for Actual 2012, the Test Year and the
10 Test Period. The payroll taxes were calculated utilizing the Test Year and Test Period
11 labor developed on Schedule 3B-1 for the current applicable taxable bases and tax rates.

12 These taxes were also reduced for capitalized/billed payroll taxes at the same
13 capitalization rate of 32.95% as labor expense. The real estate taxes shown on this
14 schedule represent the assessed taxes from 2012, and will be updated upon receipt of the
15 current year assessment notices. Tidewater pays to the PSC an assessment of \$.003 per
16 million gallons of gross intrastate operating revenues.

17 Schedule 3N - Depreciation - This schedule calculates depreciation expense for the Test
18 Year and the Test Period utilizing the Utility Plant less Contributions-in-Aid-of-
19 Construction and Customer Advances for Construction balances developed in Schedule
20 2-1. The depreciation rates used to calculate the annual depreciation expense for
21 categories of utility plant shown on Schedule N were approved in PSC Docket No. 99-
22 466, dated November 21, 2000.

23 Q. ARE THERE OTHER SCHEDULES THAT YOU ARE SPONSORING?

1 A. Schedule 4A-MWC, 4B-MWC, 4C-MWC and 4D – MWC – These four schedules represent
2 the capital structure, cost of debt and cost of preferred equity for Middlesex consolidated
3 group. This information has been filed to ensure compliance with the MFR and does not
4 represent a proposal by Tidewater to adopt a consolidated capital structure in this matter. As
5 noted in the MFR Schedule Index, Schedules 4, 4A, 4B and 4C for Tidewater stand-alone are
6 part of the exhibits attached to the testimony sponsored by Witness Dylan D'Ascendis.

7 Schedule 5 – Calculation of Gross-up Factor - The Revenue Gross-up factor is developed
8 using the statutory tax rates for State and Federal Income Taxes and the PSC assessment to
9 determine the applicable factor to be applied to the deficiency in utility operating income.

10 Q. PLEASE DISCUSS THE PROOF OF REVENUES AND THE TARIFF SHEETS THAT
11 ARE CONTAINED IN SCHEDULES 8 AND 9, RESPECTIVELY.

12 A. Tidewater engaged a cost of service expert, Gary Shambaugh, to undertake a cost of
13 service study. Mr. Shambaugh prepared the study and submitted tariff design
14 recommendations with regard to the allocation of costs to Tidewater's customer classes.
15 The cost of service study, recommendations, testimony and supporting exhibits have been
16 filed with this base rate increase application and have been identified as Exhibit T-8.
17 Tidewater has reviewed the cost of service study and its recommendations and has
18 adopted the allocation of costs to the various customer classes based upon
19 recommendations from Mr. Shambaugh. Schedule 8B is a proof of the proposed revenue
20 increase applied to existing rates based on those recommendations. Schedule 9B contains
21 the marked Tariff pages for the proposed rate changes as well as certain proposed
22 changes to non-revenue sections of the Tariff, specifically Section 3.6 Cross Connection
23 Control and Section 6.2 Maintenance of Fire Hydrants. Schedule 8A is a proof of the

1 proposed revenue from implementing rates under bond. Schedule 9A contains the
2 marked Tariff pages for the proposed rates under bond.

3 Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?

4 A. Yes, it does.

5.3.14 - Schedule of Allocated Costs From/To Affiliate Companies

MFR Schedule Ref.	Test Year	Test Period	Basis for Allocation	Services or Products Provided
3B-1	(2,004,376)	(2,097,564)	Time Sheet Reporting	Tidewater labor costs allocated to affiliate companies or capitalized
3B-6	398,613	425,292	Customer Counts	Middlesex labor costs for Customer Service Call Center shared support
3B-8	897,460 308,985 (241,343) 661,790	941,782 366,376 (221,987) 651,350	3-Factor Cost Allocation Method Time Sheet Reporting 3-Factor Cost Allocation Method 3-Factor Cost Allocation Method	Middlesex overhead costs for Administrative shared service support Middlesex labor charged for Administrative shared service support Overhead costs charged out to affiliate companies for shared services Information Technology operations and maintenance expense recovery
3B-9	41,113 85,628 53,827 10,583 117,744 45,344 13,562 16,821 82,154	60,927 90,592 56,281 11,191 157,651 47,937 13,562 19,968 85,365	3-Factor Cost Allocation Ratios 3-Factor Cost Allocation Ratios 3-Factor Cost Allocation Ratios 3-Factor Cost Allocation Ratios 3-Factor Cost Allocation Ratios 3-Factor Cost Allocation Ratios 3-Factor Cost Allocation Ratios 3-Factor Cost Allocation Ratios Number of Vehicles	Property Insurance General Liability Insurance General Liability - Umbrella Insurance Punitive Damages Insurance Workers Compensation Insurance Directors and Officers Insurance Pollution Insurance Employment Practices Insurance Automobile Insurance

(1) Automobile Insurance is allocated to various Operation and Maintenance Expense Accounts as a transportation cost.